Taking Stock of the North American Free Trade Agreement

A speech given by Franklin D. Lee, FAS' deputy administrator for Commodity and Marketing Programs, before the Colorado Agricultural Outlook Forum, Denver, Colo., on Feb. 19, 2002, reviews the promise, reality and future of our first and so far only regional trade agreement—the North American Free Trade Agreement (NAFTA). The following are highlights from that speech.

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"Trade agreements, whether in this hemisphere or another, have led to real, measurable gains in U.S. exports and farm income. In the case of NAFTA, those gains should be $1.5 billion a year by the time the agreement is fully implemented in 2008.

The Promise of NAFTA

"NAFTA was envisioned as the world's largest free-trade zone—from the Yukon to the Yucatan. NAFTA was designed to open markets, expand trade, stimulate economic growth and investment and boost the overall strength and competitiveness of North America's economies and producers. When fully implemented, it will have removed most barriers to trade and investment among the United States, Mexico and Canada, including barriers to trade in agricultural products.

"Under NAFTA, all non-tariff barriers to agricultural trade between the United States and Mexico were eliminated. They were converted to either tariff-rate quotas or ordinary tariffs. This included Mexico's import licensing system, which had been the single greatest barrier to U.S. agricultural sales in that market.

"Many tariffs were eliminated immediately on Jan. 1, 1994, when implementation began: others are being phased out over periods of five to 15 years. For import-sensitive products, such as dairy, sugar and sugar-containing products, long transition periods, tariff-rate quotas and special safeguards will allow for an orderly adjustment to free trade with Mexico.

"The agricultural provisions of the U.S.-Canada Free Trade Agreement (FTA), in effect since 1989, were incorporated into NAFTA. Under these provisions, all tariffs affecting agricultural trade between the United States and Canada were removed before 1998, with a few exceptions for items covered by tariff-rate quotas (dairy and poultry in the case of Canada; dairy, sugar and sugar-containing products for the United States).

"Mexico and Canada reached a separate bilateral NAFTA agreement on market access for agricultural products. The Mexican-Canadian agreement eliminated most tariffs either immediately or over five, 10 or 15 years. Tariffs affecting trade in dairy, poultry, eggs and sugar are maintained."

The Reality of NAFTA

"NAFTA has greatly benefited all sectors of the U.S. economy:

- U.S. exports to Mexico and Canada now support 2.9 million American jobs–900,000 more than in 1993. Such jobs pay wages that are 13 to 18 percent higher than the average American wage.
- When Congress approved NAFTA in 1993, trade between the United States and Mexico totaled $81 billion. In 2001, U.S.-Mexican trade reached $233 billion.
- U.S. exports to our NAFTA partners increased 104 percent between 1993 and 2000; U.S. trade with the rest of the world grew only half as fast. Today, the United States exports more to Mexico than to the United Kingdom, France, Germany and Italy combined.

"America's farmers and ranchers–not to mention Canadian and Mexican farmers and ranchers–have greatly benefited

BECAUSE OF NAFTA, CANADA AND MEXICO HAVE EDGED OUT THE EU AS AN EXPORT MARKET FOR U.S. FARMERS AND RANCHERS, AND NOW RIVAL JAPAN IN IMPORTANCE.

from NAFTA. Two-way agricultural trade between the United States and Mexico has increased more than 80 percent since 1994 when the agreement went into effect, reaching more than $12.6 billion in fiscal 2001. Over this same timeframe, two-way agricultural trade between the United States and Canada grew more than 66 percent, reaching more than $17.5 billion.

"When the agreement is completely implemented in 2008, U.S. agricultural exports to our NAFTA partners are projected to have risen by almost $3 billion. "Certainly import competition has increased under NAFTA for some commodities. This is not unexpected. As the economies of our trading partners continue to grow, and trade barriers fall, it is not surprising that U.S. imports grow. But it is important to remember that U.S. agricultural imports provide American consumers with a broader array of competitively priced, high-quality products year-round.

"Even more important, U.S. agricultural exports have grown under NAFTA. Without this agreement, the United States would have lost these expanded export opportunities.

"Since implementation of the U.S.-Canada FTA in 1989, U.S. agricultural exports to Canada have increased fivefold, making Canada our No. 2 agricultural export market, with purchases of $8 billion in fiscal 2001. Since 1993, U.S. agricultural exports to Mexico also have nearly doubled, reaching nearly $7.3 billion in fiscal 2001 and making Mexico our third largest agricultural market.

"Because of NAFTA, Canada and Mexico have edged out the European Union (EU) in importance as an export market for our farmers and ranchers, and are closely approaching Japan in importance as well.

"In addition, a broad cross-section of U.S. agricultural products is being shipped to Canada and Mexico, suggesting the benefits of NAFTA are widely distributed across the food and fiber sector. From fresh fruits and vegetables to snack foods, and from red meats and poultry meat to pet food, Canada and Mexico purchased record levels of U.S. agricultural products in fiscal 2001.

"Clearly, the agreement has boosted trade in a wide variety of agricultural and food products, which has had a positive effect on member countries' economies by supporting jobs and economic activity in rural communities and urban areas. As NAFTA implementation continues, it is expected to continue providing long-term benefits to each of our countries.

"NAFTA-induced structural changes take time to work through the economy, so the complete effects of NAFTA will not be felt until the agreement is fully implemented and markets have adjusted to the

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IF WE MEASURE RESULTS BY GROWTH IN U.S. SALES, ACCESS AND MARKET SHARE, NAFTA IS WORKING.

new trade environment. One of NAFTA's benefits is that it 'locks in' trade-related reforms in member countries.

"No trade agreement solves every trade problem. NAFTA is no exception. But while trade disagreements may cause occasional pain, we have been successful in resolving many issues of mutual concern. For example, the United States and Canada signed a Record of Understanding and established a Consultative Committee on Agriculture to provide some structure and focus so that we could resolve agricultural issues in an orderly and constructive way.

"Although we have a long way to go on some issues, we have made good progress on others.

"NAFTA was the first major trade agreement to establish principles on the use of sanitary and phytosanitary (SPS) standards in trade. Its provisions requiring a scientific basis for such measures have helped to curb the unjustified use of such restrictions as disguised import barriers.

"A dispute-settlement process was also created as part of NAFTA, and several ongoing committees were established, including committees on agricultural trade and on SPS measures to promote cooperation in these areas. In addition, producers in all three countries have worked to meet higher quality standards and help formulate new ones that allow greater trade without compromising SPS objectives.

"We have an expansive trilateral work program both to ensure the implementation of NAFTA and to address issues as they arise.

"In the United States, NAFTA did not require any state to change its laws. At the Federal level, NAFTA did not change the fundamental openness of the U.S. economy.

"On the other hand, Mexico's changes to achieve greater openness have been, in relative terms, far more expansive and had a greater impact. They have been positive because they have created a Mexican economy that is more resilient, more competitive—ultimately, an economy that will be more productive and generate higher incomes.

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"Some critics claim that NAFTA has either destroyed, or threatens to destroy, the ability of states to legislate health, safety or other areas that are within their jurisdiction. This is simply not true. In most cases, NAFTA requires that foreign commercial entities be treated like domestic entities. States can raise their environmental and health standards if they want to, for example, without running afoul of NAFTA.

"Every state has seen an expansion of trade (agricultural and nonagricultural) with Mexico and Canada since NAFTA went into effect. The *smallest* percentage increase recorded for a state from 1993 to 1998 was 29 percent, while some states have seen trade increases of 100, 200 or even 300 percent."

The Future of NAFTA

"NAFTA is built on the recognition of the mutually beneficial effects of free and open trade among sovereign nations. We are moving toward harmonization in standards, but in ways that continue to express the wants and needs of each country's citizens.

"When difficulties arise, we have tried, through the trilateral work program, to address the issues head on. We are not claiming NAFTA is perfect–no trade agreement is. But we should measure progress by the issues that have been satisfactorily resolved, and by the growth in access, growth in sales and growth in market share. By these measures, NAFTA is working." ■